

California State Auditor

B U R E A U O F S T A T E A U D I T S

State of California:

*Statement of Securities Accountability
of the State Treasurer's Office
December 31, 2005*



June 2006
2006-008

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CALIFORNIA STATE AUDITOR

ELAINE M. HOWLE
STATE AUDITOR

STEVEN M. HENDRICKSON
CHIEF DEPUTY STATE AUDITOR

June 8, 2006

2006-008

The Governor of California
The Honorable President pro Tempore of the Senate
The Honorable Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

The Bureau of State Audits presents its audit report of the State Treasurer's Office statement of securities accountability as of December 31, 2005.

The statement of securities accountability presents the securities owned by or pledged to the State directly, or under investment agreements, and those securities held for safekeeping. The State Treasurer's Office is responsible for the safekeeping of all these securities held in the treasury or other depositories. It is not responsible for securities owned by or pledged to the University of California, or for securities in other depositories owned by or pledged to the Public Employees' Retirement System, the State Teachers' Retirement System, the Legislators' Retirement System, or the Judges' Retirement System. For the statement of securities accountability, the State Treasurer's Office assigned dollar amounts to each security for ease of accountability rather than for purposes of valuing securities at cost or market. The dollar amounts assigned represent various values, including the par or face value, the original principal value, the current outstanding principal balance, or a nominal value of \$1 per certificate or note. Therefore, the dollar amounts presented in the statement of securities accountability should not be used to determine the value of investments owned by, or pledged to, the State. We found that the statement presents fairly the securities accountability of the State Treasurer's Office as of December 31, 2005.

We conducted this audit to comply with the California Government Code, Section 13299.1.

Respectfully submitted,

ELAINE M. HOWLE
State Auditor

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State of California:

*Statement of Securities Accountability
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CALIFORNIA STATE AUDITOR

ELAINE M. HOWLE
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Independent Auditor's Report

We have audited the accompanying statement of securities accountability as of December 31, 2005. This statement of securities accountability is the responsibility of the State Treasurer's Office. Our responsibility is to express an opinion on the statement of securities accountability based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and with applicable standards contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the accompanying statement of securities accountability is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of securities accountability. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statement of securities accountability. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of securities accountability was prepared for the purpose of providing information required by Section 13299.1 of the California Government Code as discussed in Note 1 and is not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the statement of securities accountability referred to above presents fairly, in all material respects, the securities accountability of the State Treasurer's Office as of December 31, 2005, in conformity with the basis of accounting described in Note 1.

This report is intended solely for the purpose of providing information required by Section 13299.1 of the California Government Code and should not be used for any other purpose.

BUREAU OF STATE AUDITS

PHILIP J. JELICICH, CPA
Deputy State Auditor

Date: May 4, 2006

Staff: John F. Collins, II, CPA, Audit Principal
Nasir Ahmadi, CPA
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BUREAU OF STATE AUDITS

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STATE OF CALIFORNIA
STATEMENT OF SECURITIES ACCOUNTABILITY
OF THE STATE TREASURER'S OFFICE
DECEMBER 31, 2005

Account Title	Securities and Investment Agreements in the STO's Vault	Securities on Deposit With Banks and Trust Companies	Totals
Pooled Money Investment Account (Note 2)	—	\$42,756,720,283.83	\$42,756,720,283.83
Individual State Investment Accounts			
California Housing Finance Agency	\$ 6,201,232.84	1,507,176.68	7,708,409.52
California State University, Dormitory Construction Fund	—	201,959,103.00	201,959,103.00
Central Valley Water Project Construction Fund	—	3,094,132,089.00	3,094,132,089.00
Central Valley Water Project Revenue Fund	—	45,971,000.00	45,971,000.00
General Obligation Refunding Escrow	—	3,920,472,663.96	3,920,472,663.96
High Tech Education Revenue Bond Fund, PBCF	—	26,441,000.00	26,441,000.00
Oakland State Building Authority Fund	—	38,962,849.00	38,962,849.00
Public Building Construction Fund	—	538,174,828.00	538,174,828.00
San Francisco State Building Fund	—	234,788,720.00	234,788,720.00
State Compensation Insurance Fund	7,169,000.00	18,123,789,412.04	18,130,958,412.04
State Lottery Fund	—	2,828,174,000.00	2,828,174,000.00
Veterans' (SG) 1997-98 Series A/B Revenue Bond, Reserve Account	—	6,521,022.15	6,521,022.15
Veterans' (SG) 1997-98 Series A/B Revenue Bond, Revenue and Restricted Recoveries Accounts	—	8,905,681.96	8,905,681.96
Veterans' (SG) BG/BH/BK/BL General Obligation Bond, Revenue Account	—	22,430,242.55	22,430,242.55
Veterans' (WL) 1997 Series C Revenue Bond, Reserve Account	—	6,418,986.19	6,418,986.19
Veterans' (WL) 1997 Series C Revenue Bond, Revenue Account	—	1,082,495.40	1,082,495.40
Veterans' (WL) 1997 Series C Revenue Bond, Restricted Recoveries Account	—	12,158,556.78	12,158,556.78
Veterans' (WL) 1999 Series A/B Revenue Bond, Reserve Account	—	10,263,467.15	10,263,467.15
Veterans' (WL) Series BJ 11/12 General Obligation Bond, Recycling Account	—	148,747.71	148,747.71
Veteran's (WL) Series BJ 11/12 General Obligation Bond, Revenue Account	—	9,972,861.87	9,972,861.87
Veterans' (WL) Series BT/BU General Obligation Bond, Recycling Account	—	1,570,458.29	1,570,458.29
Veterans' (WL) Series BT/BU General Obligation Bond, Revenue Account	—	7,141,484.95	7,141,484.95
Total Individual State Investment Accounts	13,370,232.84	29,140,986,846.68	29,154,357,079.52

The accompanying notes are an integral part of this statement.

continued on next page

Account Title	Securities and Investment Agreements in the STO's Vault	Securities on Deposit With Banks and Trust Companies	Totals
Collateral to Secure Deposits in Banks			
Agency Bank Deposits	—	145,143,379.51	145,143,379.51
Employment Development Department-Escrow	—	268,749.18	268,749.18
Personnel Administration, Department of-Deferred Compensation	—	31,300,032.83	31,300,032.83
State Treasurer's Office-Custodian	12,100,000.00	—	12,100,000.00
State Treasurer's Office-Demand Deposits	—	683,169,635.29	683,169,635.29
State Treasurer's Office-Fiscal Agents	—	37,278,150.35	37,278,150.35
State Treasurer's Office-Time Deposits	557,662,083.44	9,085,000,296.99	9,642,662,380.43
Total Collateral to Secure Deposits in Banks	569,762,083.44	9,982,160,244.15	10,551,922,327.59
Pledges Received by State Agencies			
California State University-Dominguez Hills	651,000.00	—	651,000.00
California State University-Sacramento	—	800,000.00	800,000.00
California State University-San Jose	730,000.00	7,983,000.00	8,713,000.00
California State University-San Marcos	8,000.00	—	8,000.00
California State University-Stanislaus	892,000.00	—	892,000.00
Consumer Affairs, Department of	20,707,854.92	4,000.00	20,711,854.92
Corporations, Department of	2,044,540.21	—	2,044,540.21
Employment Development Department	192,850,291.00	3,996,200.00	196,846,491.00
Financial Institutions, Department of	98,525,000.00	69,934,782.80	168,459,782.80
Industrial Relations, Department of	249,405,961.08	33,647,000.00	283,052,961.08
Insurance, Department of	206,531,085.10	5,825,389,929.00	6,031,921,014.10
Real Estate, Department of	12,500.00	—	12,500.00
State Lands Commission	15,038,138.76	158,000.00	15,196,138.76
State Water Resources Control Board	14,000.00	—	14,000.00
Transportation, Department of	27,000,000.00	9,625,000.00	36,625,000.00
Total Pledges Received by State Agencies	814,410,371.07	5,951,537,911.80	6,765,948,282.87
General Safekeeping			
California State Library	3,659.00	—	3,659.00
Developmental Services, Department of	270.00	800,000.00	800,270.00
Education, Department of	9,330.00	—	9,330.00
State Treasurer's Office-Bearer Bond Stock	490,615,000.00	—	490,615,000.00
State Treasurer's Office-FAST Program	67,801,306,000.00	—	67,801,306,000.00
Water Resources, Department of	—	162,000.00	162,000.00
Total General Safekeeping	68,291,934,259.00	962,000.00	68,292,896,259.00
TOTAL SECURITIES	\$69,689,476,946.35	\$87,832,367,286.46	\$157,521,844,232.81

The accompanying notes are an integral part of this statement.

Notes to the Statement of Securities Accountability

Note 1

Summary of Significant Accounting Policies

Basis of Presentation

The accompanying statement of securities accountability was prepared for the purpose of providing information required by Section 13299.1 of the California Government Code. This statement presents the securities owned by or pledged to the State directly, or under investment agreements, and those securities held for safekeeping. The State Treasurer's Office (STO) must account for all securities held in the treasury or other depositories. It does not account for securities owned by or pledged to the University of California, or for securities in other depositories owned by or pledged to the Public Employees' Retirement System, the State Teachers' Retirement System, the Legislators' Retirement System, or the Judges' Retirement System. The securities for which the STO is accountable are categorized as follows:

- Pooled Money Investment Account (PMIA) securities, which consist of investments with financial institutions. The investments are purchased with available money from various funding sources. The California Government Code, Section 16480.1, authorizes the State's Pooled Money Investment Board to designate the amount of available money to make such investments. In addition, Section 16480.2 expresses the intent that such investments realize the maximum return consistent with safe and prudent treasury management. Earnings on the PMIA securities are credited to the State's General Fund, the Surplus Money Investment Fund, the Local Agency Investment Fund, the Fish and Game Preservation Fund, the Public Employees' Retirement Fund, and the State Teachers' Retirement Fund.
- Individual state investment accounts, which consist of investments with financial institutions that are not invested through the PMIA.
- Collateral to secure deposits in banks, which consists of securities pledged by the banks to protect the money that the State has on deposit with them.
- Pledges received by state agencies, which consist of securities pledged to the State by certain businesses to protect consumers, guarantee contractor performance, and ensure payment of obligations, such as disability benefits and state taxes.
- General safekeeping amounts, which consist of securities held on behalf of state agencies.

Valuation of Securities

The accompanying statement of securities accountability is not intended to report securities at either book value or market value in accordance with generally accepted accounting principles. Instead, for ease of accountability, the STO values securities as follows:

Securities and Investment Agreements in the Vault of the State Treasurer's Office

- Bonds, certificates of deposit, and surety bonds are valued at par value or face value.
- Stock certificates are valued at \$1 per share.
- Real estate mortgage notes held as pledges to secure deposits of financial institutions are valued at their original principal balances.
- Investment agreements held as investments of individual state accounts are valued at their current outstanding balances.

Securities on Deposit With Banks and Trust Companies

- Bonds, commercial paper, certificates of deposit, pledged cash, Federal National Mortgage Association certificates (except participation certificates), and Federal Home Loan Mortgage Corporation certificates (except participation certificates) are valued at par value or face value.
- Federal National Mortgage Association participation certificates, Federal Home Loan Mortgage Corporation participation certificates, and Small Business Administration participation certificates are valued at their current outstanding principal balances.
- Government National Mortgage Association book entry certificates are valued at their current outstanding principal balances.
- Real estate mortgage notes held as pledges to secure deposits of financial institutions are valued at their original principal balances.

Note 2

Pooled Money Investment Account—Securities

The STO reported a total value of \$42,756,720,283.83 for the securities in the PMIA at December 31, 2005. In its statement of cash accountability for December 31, 2005, the STO reported a total value of \$42,553,892,200.78 for these securities. The difference between the two values results because the STO valued the PMIA securities in the statement of securities accountability according to the methods described in Note 1, but it valued the same securities at book value for the statement of cash accountability.

Note 3

Personal Property

In addition to depositing securities, state agencies deposit personal property in the vault of the STO. The following table lists entities having personal property in the vault as of December 31, 2005.

Entity	Number of Items
Developmental Services, Department of	100
Governor's Scholarship Program	4
Motor Vehicles, Department of	1,472
Personnel Administration, Department of	1
State Controller's Office	279
State Treasurer's Office	15,283
Total	17,139

Each item or sealed package of personal property is counted individually. However, because personal property items are not securities, they are excluded from the statement of securities accountability.

cc: Members of the Legislature
Office of the Lieutenant Governor
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Government Organization and Economy
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
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